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Will alternative investments go mainstream in 2025?
By Rob Burgess
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In previous years, alternative investments were the purview of only the well-to-do.

There were several reasons behind this, not the least of which were the high barriers to entry, the lack of liquidity and the often opaque due diligence required.

But as we enter 2025, experts say the playing field for alternative investments has fundamentally changed as fractional ownership and other paths to access have made the products increasingly available.

2025 could be a turning point for alternatives
Atish Davda, co-founder and CEO of pre-IPO alternative investments platform EquityZen, said many in the wealth industry have embraced alternative investments for their clients.

"The question is now 'how and which,' not 'whether,'" he said. "Portfolio allocations will move off of zero for many clients. This trend will accelerate over the rest of the decade. As alternatives become a regular part of the balanced portfolio, the question will be: 'Which alternatives?'"

Davda said he expects to see nuance in how alternatives are viewed.

"There will be a separation between speculative stuff, like wine and collectibles, and investments that have fundamental value, like pre-IPO and private credit," he said.

Patrick "Pat" Kennedy, co-founder and founding partner of AllSource Investments in Hartford, Connecticut, is a former director of alternative investments at Morgan Stanley Wealth Management. His firm works in the high net worth and ultrahigh net worth areas, specializing in alternative investments.

He said that in 2025, his firm will pay attention to deregulation, the Federal Reserve's continued lowering of interest rates, and the picking up of mergers and acquisitions activity.

"This should bode well for most alternative investments but mostly for private

equity and hedge funds," he said. "Private equity has been on the sidelines for the last two years. We haven't seen much activity. That is quickly changing as we enter into next year. More capital is being called down for current commitments, and more top-tier managers are coming back to market."

Brian Spinelli, co-investment officer at Halbert Hargrove in Long Beach, California, said this trend is a continuation of the multiyear increase in alternative investment products designed for the individual retail investor. Spinelli said interest rates will remain the focus in 2025.

"Those looking for bond-like alternatives will likely continue to search for higher-yielding options, assuming 2025 doesn't turn into a risk-off year," he said. "Also, if investors remain happy with their public U.S. equities, that might cause them to continue with that momentum rather than seek diversification in alternatives with similar purposes for a portfolio."

Christopher Berry, a financial planner with Castle Wealth Group in Brighton, Michigan, said alternative investments are set to gain more traction in 2025, especially as investors look for ways to diversify against market uncertainty.

"The key factors driving this will be interest rate trends and continued innovation in access to these investments," he said.

Greater access to alternatives for investors

Alternative investments are becoming more accessible to a broader group of investors, said Jon Ekoniak, managing partner at Bordeaux Wealth Advisors in Menlo Park, California. Many alternative investments require a minimum investment of $5 million for individual investors.

"If one works with an RIA that has good access, you may be able to get that down to $250,000," he said. "These investments are typically structured as limited partnerships and the actual investment process is lengthy and cumbersome."

Ekoniak said alternative investment managers are packaging the investments in different forms, such as closed-end funds and interval mutual funds.

"With an interval mutual fund, the actual investment process can be greatly simplified and the investment minimum can be as low as $1,000," he said. "Investors also get 1099s instead of K-1s."

Investment managers want to broaden their investor base, Ekoniak said.

"They are expanding the number of options and investment vehicles to simplify the investment process and lower the investment minimums so more investors can participate in this asset class," he said.

One example came in August when NFL owners voted to approve a measure to allow private equity funds to buy stakes in teams.A total of 10% of a team can

now be owned by private equity funds.

Kennedy said his firm is one of the few with access to this opportunity.

"Certain investments in professional sports can be considered more a vanity investment than one that's fundamentally sound," he said. "We would argue that owning equity in an NFL franchise is far from a vanity investment and has solid fundamentals when you look under the hood."

Fractional ownership on the rise

Spinelli said fractional ownership of single high-priced alternatives likely allows more individual investors access to areas they otherwise would not be able to consider.

"It also allows investors to diversify better at lower minimum investment sizes in this space," he said. "However, investors need to be careful to understand the liquidity constraints and costs and set the right expectations for them."

Berry said fractional shares have been a game-changer, breaking down the barriers to entry for assets like real estate or private equity.

"More investors can now participate without needing significant capital, which will likely make alternatives a bigger part of mainstream portfolios," he said. "The challenge moving forward will be helping clients understand the complexities and risks that come with these opportunities."

However, with alternative investments, investors should beware, Ekoniak said.

"Just because an investment is labeled as an alternative doesn't mean it is a good investment," he said. "There is often less public information available on these investments, so it is highly recommended that investors do their due diligence before investing."